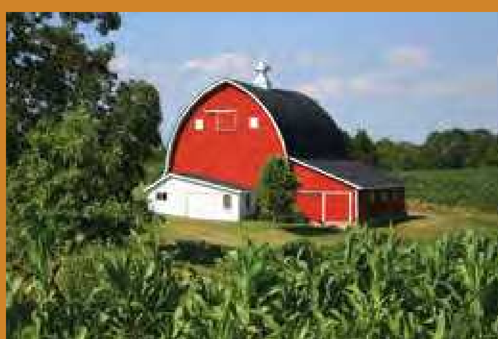
United States Department of Agriculture

Office of Inspector General



Rural Development: Rural Business-Cooperative Service Grant Programs – Duplication
Audit Report 34601-0001-31

What Were OIG's Objectives

Our overall objective was to determine if there is duplication in RBS grant and loan programs. Specifically, we looked for any duplication, overlap, or fragmentation of program objectives, goals, and/or funding.

What OIG Reviewed

We established a universe of 3,901 RBS grants and loans from FY 2009 through FY 2012. We then focused on entities with the highest risk for duplication, and judgmentally selected 54 grants and loans obligated to 8 entities from 2 different State.

What OIG Recommends

We recommend that RBS conduct the necessary research and analyses to determine if efficiencies can be gained from the proposal for a new, consolidated grant program. Also, RBS should establish procedures at the national office level to require States to implement controls for preventing duplication. Finally, RBS should recover $82,878 in improper grant disbursements.

OIG examined whether payment duplication or overlap of goals and objectives occur in RBS grant and loan programs.

What OIG Found

The Office of Inspector General (OIG) found that while Congress created each Rural Business-Cooperative Service (RBS) grant and loan program to serve a specific niche, additional programs added over the years have led to overlapping goals and objectives. We examined nine RBS programs, and found that five have areas of duplication, overlap, and fragmentation—in that they share similar purposes, while serving some of the same organizations. In the budget request for fiscal year (FY) 2014, Rural Development and the Office of Management and Budget proposed a new grant program that would consolidate these same five programs. However, the proposed program lacked any analysis of potential cost savings and efficiencies to be gained, and Congress did not enact it because it was unproven and would adversely impact families and communities in rural America. As a result, Rural Development staff must be continuously trained on the specific needs of multiple programs, some of which are small and minimally-funded.

We also found that one of the eight entities we reviewed improperly received grants for the same purposes, as RBS approved two grant applications that were almost identically worded. Another entity out of the eight did not properly manage the grants it was awarded. This occurred because RBS has no consistent, overall controls to prevent award approval and reimbursement for expenses for the same purpose. As a result, RBS has reduced assurance that grants to the two entities, totaling $552,148, were not made for duplicate purposes. RBS is also at risk for potentially making improper payments for duplicate activities and imprudent use of resources. The agency generally agreed with our five recommendations.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: March 25, 2014

AUDIT NUMBER: 34601-0001-31

TO: Lillian Salerno
Administrator
Rural Business – Cooperative Service

ATTN: John Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development: Rural Business – Cooperative Service Grant Programs - Duplication

Attached is a copy of the final report on the subject audit. Your written response to the official draft report, dated February 20, 2014, is attached, with excerpts from your response and the Office of Inspector General's position incorporated in the relevant Finding and Recommendation sections of the report.

Based on your response to our official draft report, we accept management decision on all five recommendations in the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO). In accordance with Departmental Regulation 1720-1, final action should be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objectives

Background

The Department of Agriculture (USDA), through its Rural Development mission area, provides grants and loans for businesses and cooperatives in under-served rural areas. The Rural Business-Cooperative Service (RBS), an agency within Rural Development, works with private sector and community-based organizations to provide financial assistance and business planning to create or preserve jobs in eligible rural service areas. RBS administers its programs through a network of State and area offices.

Recipients of RBS assistance, such as grant and loan programs, include individuals, corporations, partnerships, cooperatives, public bodies, nonprofit corporations, Indian tribes, and private companies. The following grant and loan programs were included within the scope of our audit work:

> *The Rural Business Enterprise Grant (RBEG)* program provides grants for rural projects that finance and facilitate the development of small and emerging rural businesses. Rural public entities (towns, communities, State agencies, and authorities), Indian tribes, and rural private non-profit corporations are eligible to apply for funding. Examples of eligible fund use include: training and technical assistance; acquisition or development of land; construction, pollution control and abatement; working capital; distance adult learning; rural transportation improvement; and project planning. All RBEG applications are reviewed, scored, and approved for funding eligibility at the appropriate Rural Development State office.
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> *The Rural Business Opportunity Grant (RBOG)* program provides grants to promote sustainable economic development in rural communities with exceptional needs. Public bodies, nonprofit corporations, Indian tribes, institutions of higher education, and rural cooperatives are eligible to apply for funding. RBOG funds can be used for providing technical assistance, such as feasibility studies, business plans, and leadership and entrepreneurial training. Grant funds can also be used for community and technology-based development. All RBOG applications are submitted to the respective State office for initial review of eligibility and scoring. Competitive applications are then forwarded to the national office for final ranking and awards.
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> *The Rural Cooperative Development Grant (RCDG)* program provides grants to improve the economic condition of rural areas by assisting individuals or entities in the startup, expansion, or operational improvement of rural cooperatives and other business entities. Nonprofit corporations and institutions of higher education are eligible to apply for funding. RCDG funds may be used to pay for 75 percent of the cost of establishing and operating centers for rural cooperative development. Development activities may include: applied research, feasibility studies, environmental studies, training and instruction, technical assistance, and advisory services for the purpose of cooperative development. Applications are submitted to State offices for preliminary review and consultation. Eligible applications are scored by a panel comprised of qualified State

office personnel. Final RCDG applications are submitted to the national office for eligibility determination.

The Rural Economic Development Loan and Grant (REDLG) program provides funding to rural projects through local utility organizations. Grants are made to intermediaries to establish a revolving loan fund. Intermediaries make zero-interest loans to finance approved projects. REDLG loans may only be made to entities located in a rural area. Projects may include: technical assistance, research and educational services, community development assistance to non-profits and public bodies, facilities and equipment for medical care to rural residents, and telecommunications/computer networks for distance learning or medical care. REDLG applications are received and processed at the State office level and approved at the national office.

The Value-Added Producer Grant (VAPG) program provides grants to help agricultural producers enter into value-added activities related to the processing and/or marketing of bio-based value-added products.[1] Independent producers, agricultural producer groups, farmer or rancher cooperatives, and majority-controlled producer-based businesses are eligible for funding. VAPG funds can be used for economic planning activities or working capital expenses. Applications are submitted to the Rural Development State offices for preliminary review and consultation, eligibility determinations, and partial scoring with evaluation for priority points. The State offices then forward applications to the national office for final review and approval.

The Small, Socially-Disadvantaged Producer Grant (SSDPG) program provides grants to small, socially-disadvantaged agricultural producers through eligible cooperatives and cooperative development centers. The grants can be used for technical assistance, which includes: market research, product and/or service improvement, legal advice and assistance, feasibility studies, and business or marketing plans. SSDPG applications are scored by the applicable State office and then submitted to the national office for final review and ranking.

The Rural Microentrepreneur Assistance Program (RMAP) supports the development and ongoing success of rural microentrepreneurs and microenterprises. Non-profit enterprises, Indian tribes, and institutions of higher learning are eligible for funding. RMAP grants are awarded for technical assistance, which includes: training, technical and operational support, business plans, and market development assistance. RMAP funding can also be used to provide fixed interest rate microloans to rural microentrepreneurs for startup and growth of microenterprises. These loans can provide working capital; purchase of furniture, fixtures, supplies, inventory, or equipment; debt refinancing; business acquisitions; and purchase or lease of real estate. RMAP

[1] A value-added product is an agricultural commodity that must meet one of the following five value-added methodologies: (1) has undergone a change in physical state; (2) was produced in a manner that enhances the value of the agricultural commodity; (3) is physically segregated in a manner that results in the enhancement of the value of the agricultural commodity; (4) is a source of farm or ranch-based renewable energy; or (5) is aggregated and marketed as a locally-produced agricultural food product.

applications are submitted to the appropriate State office to be reviewed, scored, and ranked on a competitive basis. The national office conducts final reviews and approvals.

The Intermediary Relending Program (IRP) was designed to help alleviate poverty and increase economic activity and employment in rural communities by providing financing to businesses to create or retain jobs. Funds are awarded to non-profit entities, public agencies, Indian tribes, and cooperatives. These entities, or intermediaries, loan the funds to rural businesses to purchase or develop land, purchase equipment, provide startup costs, or conduct feasibility studies. IRP applications are submitted to State offices for preliminary reviews and consultation, eligibility determinations, and partial scoring with evaluation for priority points. The national office conducts final reviews and approvals.

In 2011, OIG conducted a regional audit as a result of a hotline complaint. We found that an entity in Missouri received approximately $65,000 in duplicate payments through two RBS grant programs, RCDG and VAPG, as well as a State-run grant program.[2] Based on these findings, we initiated this audit to determine if duplication is more widespread among RBS grant and loan programs.

Objectives

The objective of this audit was to evaluate RBS grant and loan programs administered by Rural Development to determine if there is duplication. Specifically, we looked for any duplication, overlap, or fragmentation of program objectives, goals, and/or funding.

According to the Government Accountability Office (GAO),[3] duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries. Overlap occurs when programs that have similar goals, devise similar strategies and activities to achieve those goals, or target similar users. Fragmentation occurs when more than one Federal agency (or more than one organization within an agency) is involved in the same broad area of national interest.[4]

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[2] *Rural Cooperative Development Grant Program Eligibility and Grant Fund Use for a Missouri Entity* (34004-0001-KC, August 2011).
[3] 2012 Annual Report: *Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue* (GAO-12-342SP, February 2012).
[4] Our audit work covered similar programs in different agencies within USDA. We did not review programs in Federal agencies outside USDA.

Section 1: RBS Grant and Loan Program Evaluation

Finding 1: RBS Should Fully Research and Analyze Its Proposal for Combining Grant and Loan Programs

While Congress created each RBS grant and loan program to serve a specific niche, additional programs added over the years have led to overlapping goals and objectives. We examined nine RBS grant and loan programs[5] and found that five grant programs have areas of duplication, overlap, and fragmentation—in that they share similar purposes, while serving some of the same organizations within the same agency.[6] In the USDA FY 2014 Budget Summary, Rural Development and the Office of Management and Budget (OMB) proposed a new grant program that would consolidate these same five RBS grant programs. Neither the Senate nor House appropriations bills included the new program; and the House Appropriations Bill specifically stated the budget submitted by the agency and OMB would adversely impact families and communities in rural America. We found the proposed program did not include specific analyses that another agency included in similar proposals for consolidating programs, such as cost savings and efficiencies gained, stakeholder views, and a definition of the Federal role. Agency officials said history has shown it is difficult to gain Congressional backing for legislative changes and were unaware of the steps necessary to propose such changes. As a result, Rural Development experienced additional burden on its limited resources, as its staff must be continuously trained on the specific criteria and needs of the many programs, some of which are small and minimally-funded.[7]

The Office of Management and Budget's (OMB) Inventory of Government Programs Memorandum states, "duplicative programs make [G]overnment less effective, waste taxpayer dollars, and make it harder for the American people to navigate government services. In order to continue our efforts to reduce duplication and overlap and to improve program outcomes through better coordination across agencies, we must achieve even greater transparency into all of the [G]overnment's programs." This will be achieved by developing a comprehensive list of Government programs "to gain a greater understanding of what government does well and what it needs to stop doing," as required by the Government Performance and Results Modernization Act of 2010.[8]

Rural Development and OMB proposed consolidating the following five programs in USDA's FY 2014 budget request: RBEG, RBOG, RMAP, SSDPG, RCDG, and another program outside of RBS, the Rural Community Development Initiative (RCDI) grant program.[9] After reviewing

[5] RBEG, RBOG, RCDG, REDL, REDG, VAPG, SSDPG, RMAP, and IRP.
[6] Our audit objectives were to look for duplication, overlap, and fragmentation. According to a GAO report, duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries. Overlap occurs when programs that have similar goals, devise similar strategies and activities to achieve those goals, or target similar users. Fragmentation occurs when more than one Federal agency (or more than one organization within an agency) is involved in the same broad area of national interest.
[7] RMAP was not funded in fiscal years 2009 or 2012 through 2013.
[8] Memorandum for the Heads of Executive Departments and Agencies, and Independent Regulatory Agencies, M-12-07, January 13, 2012.
[9] The RCDI program is not an RBS program and was not included within the scope of our audit work. RCDI is a Rural Housing Service grant program which develops housing in rural areas.

the rules and regulations of each RBS program in our scope, we determined that the five RBS grant programs share similar purposes and serve some of the same organizations. For example:

- RBEG and RBOG both provide technical assistance grants to small businesses in rural areas.[10]
- RBEG and RMAP both provide technical assistance grants to economic development organizations in rural areas.[11]
- RCDG and SSDPG both provide technical assistance grants to cooperative development centers.

Therefore, we question the efficiency of administering and maintaining five separate programs that can provide grants to the same organizations for the same purposes. In addition, the field officials stated they do not have the time or resources to devote to thorough line-by-line reviews of expenses submitted by entities to ensure no duplicate reimbursements are approved.

When we asked national and State officials their opinions about combining programs, they stated that a single program would require fewer regulations to prepare and learn. Additionally, RBS national officials stated that writing and revising regulations for each individual program is a difficult and time-consuming process. RBS had 20 percent less staff in 2013 compared to 2011 available to administer the programs, due to decreases in funds for salaries and expenses and implementation of Voluntary Early Retirement Authority/Voluntary Separation Incentive Pay (VERA/VSIP). Fewer programs would simplify work for their existing staff. However, RBS national officials stated that since all of these grant and loan programs were created by statute, it would also take a statute to eliminate or consolidate them. In the meantime, Rural Development continues to operate its programs with limited resources and train staff on requirements for multiple programs, some of which are small and minimally-funded. For example, RMAP has not received funding since FY 2011, yet staff continue to be trained on program requirements because the program is still operating with carry-over funds and servicing awards from prior years.

Recent Appropriations Developments

According to the RBS Administrator's testimony in an April 2013 House Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies hearing, the new consolidated grant program would support projects that provide technical and financial assistance to small and emerging private businesses and cooperatives in rural areas. The proposed budget included $55 million for the new program, which is a 22 percent increase over the pre-sequester funding level for 2013. The agency planned to utilize the increase in funding to build a more evidence-based model in awarding funding where grantees must meet minimum performance targets that encourage private sector growth.

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[10] According to 7 CFR 1942.304, technical assistance is a function performed for the benefit of a private business enterprise and is a problem solving activity, such as market research, product and/or service improvement, or feasibility study.

[11] More specifically, RMAP provides technical assistance grants to Microenterprise Development Organizations (MDOs).

We discussed the new program with the Acting Under Secretary for Rural Development, who stated that the program was the result of a concerted effort between Rural Development and OMB. Several discussions were held on the topic of the new grant program, but the agency had not prepared a formal legislative proposal, conducted any research, or performed any feasibility studies to establish the effectiveness and efficiencies that could be gained by implementing the program.

The latest Senate Appropriations Bill did not include the new grant program.[12] Instead, it proposed a total of about $63 million for RBEG, RBOG, RCDG, RMAP, SSDPG, and RCDI combined, compared to almost $41 million for FY 2013. The latest House Appropriations Bill also did not include the new consolidated grant program and specifically stated they were not supporting it, but offered no details to the agency on how to improve the proposal. The House Bill stated, "Rural Development's proposal to create a new, unproven $55 million grant program through the appropriations process and cuts for rural housing programs received skeptical attention. Altogether, the administration's proposal is bad news for families and communities in rural America."[13, 14] RBS officials told us that they did not expect to see Congressional action, based on an initial request for the new program they proposed. However, RBS took no follow-up action as a result.

Given this situation, we conducted research on other agencies' attempts to consolidate programs. In a Government Accountability Office (GAO) audit of the Department of Homeland Security, GAO found that the Federal Emergency Management Agency (FEMA) proposed a consolidation of 16 grant programs starting in FY 2013. Congress did not approve the new consolidated program in FY 2013 or FY 2014, but provided suggestions for the agency on a course of action. Congress advised FEMA to incorporate stakeholders' views on the new program, obtain the necessary authorizing legislation, clearly define the Federal role, and reassess the most effective delivery of support and resources to sustain and improve homeland security capabilities.

Since Congress did not take up RBS' proposed consolidated grant program, and the House of Representatives' bill voiced concerns about the consolidation, we recommend that Rural Development take the necessary steps to research how the new program would affect rural families and businesses. Considering the steps Congress suggested to FEMA and other options available, the agency could:

- Incorporate stakeholders' views
- Perform research and collect data on the programs
- Perform cost/benefit analyses
- Conduct feasibility studies
- Define the Federal role in the new program
- Assess the most effective and efficient delivery of the grant program

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[12] Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, 2014, dated June 27, 2013.
[13] House of Representatives Report 113-116; Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, 2014, dated June 18, 2013.
[14] According to the Consolidated Appropriations Act of 2014, the House and Senate did not approve the new consolidated grant program. Consolidated Appropriations Act, 2014, dated January 13, 2014.

- Develop a legislative proposal, if warranted

In conclusion, we believe that an analysis of the proposed changes to RBS programs would be instructive to both the agency and to Congress and would make transparent the gains and losses associated with any consolidation of grant programs.

Recommendation 1

Conduct the research and analyses to support the proposal and associated funding required for a new, consolidated grant program. If efficiencies can be gained through consolidation without adversely affecting rural families and communities, submit a legislative proposal to the Secretary, including the results of the research and analyses conducted, stakeholder views, and a definition of the Federal role.

Agency Response

RBS will not be able to dedicate resources to complete the analysis recommended, but will instead be using resources and new authorities to implement it. Since the issuance of this official draft report, the Agricultural Act of 2014 (2014 Farm Bill) has been enacted and requires RBS to establish a Rural Business Development Grant program under Section 6012. This program will consolidate the current RBEG and RBOG programs. National staff resources will be utilized and responsible for promulgating a regulation for this new program. Further, in the development of the President’s fiscal year 2015 budget, the Department will be proposing that in addition to the RBEG and RBOG programs, the RMAP, RCDG and RCDI programs be consolidated into the Rural Business and Cooperative Grant program. Additionally, during this long-term process the Agency will have to consider the new OMB grant reform requirements which promote performance over compliance. This is a new concept for the Agency and we will need to seek feedback from our field offices and public stakeholders through development and promulgation. As part of a major regulation re-write, the Agency should also be completing a cost-benefit analysis. Through all of these efforts, a more effective and efficient technical assistance grant program should evolve. Although this new program does not include all of the programs under the 2013 legislative proposal, it is a start in the right direction of reducing program burden and consolidation of duplicative grant programs.

In subsequent correspondence, RBS estimated that actions required for this recommendation will be completed by October 1, 2015.

OIG Position

We accept management decision for this recommendation.

Section 2: Overall Controls to Prevent Duplication

Finding 2: RBS Needs Internal Controls to Prevent Potential Duplicate Grant Awards and Payments for the Same Purpose

Due to the similarities between RBS' programs, we found that one of the eight entities we reviewed improperly received grants for the same purposes, as RBS approved both grant applications that were almost identically worded. Another entity out of the eight did not properly manage the grants it was awarded. Duplication can occur because RBS has no consistent, overall control in place to prevent award approval and reimbursement for expenses for the same purposes. State offices have inconsistent procedures for reviewing grant applications and reimbursements, as RBS has not developed national guidance on preventing duplication. At the same time, RBS national officials stated that they rely on Single Audits and other internal reviews to detect duplicate payments; however, these methods only detect such problems after a payment is made. As a result, RBS has reduced assurance that grants to the two entities, totaling $552,148, were not made for duplicate purposes. Without adequate overall controls, RBS is at risk for both wasting resources and potentially making improper payments for duplicate activities.

According to RBS grant regulations, grant funds may not be used to duplicate or replace services or support.[15] RBEG program regulations state that a proposed grant project should not duplicate economic development activities for the project area.[16] Additionally, RBEG instructions for grant applicants state that a grant's purpose and scope of work should not duplicate programs that have committed funds, or have received funds, from other sources.[17] Regarding reimbursements, Uniform Federal Assistance regulations do not allow double compensation to grant recipients for allowable costs.[18]

We judgmentally selected 54 grant and loan files[19] at a high risk for duplication. These grants and loans were obligated to eight different entities. In our review, we determined that one of the eight entities improperly received more than one award for the same purpose during the same time frame, while another entity out of the eight failed to properly manage the grants they were awarded. The two cases are described in detail below.

[15] 7 CFR 4284.10(a).
[16] 7 CFR 1942.305(e).
[17] RD Instruction 1942-G, Attachment 1, Section B (III)(T).
[18] 7 CFR 3015.190 (b)(2).
[19] These 54 grant and loan files were selected from a universe of 3,901 RBS awards that were obligated during FY 2009 through 2012. We selected the 54 by focusing on those with the highest risk of duplication using various criteria (for further explanation see Scope and Methodology section). These 54 grants and loans were awarded to a total of 8 different entities.

Entity One

One recipient received a $99,000 RBEG and a $50,000 RBOG, both for providing a web-based technical assistance project to assist small and emerging economic development organizations. When we compared the two applications, we noted that both were worded almost identically. Even the titles were the same, except that one included the word "infrastructure," while the other did not. Additionally, within the RBOG file, we found an email between the State Business Program Director and an area official questioning whether the RBEG and RBOG were for the same purpose. However, the officials ultimately decided to recommend both grants for approval, with the understanding that all RBEG funds would be expended before the entity used RBOG funds. Grants can be approved for separate phases of projects, but prior funds should be expended first.[20] When we questioned the State Business Program Director about the email and possible duplication, the official agreed that the two awards should not have been obligated at the same time, and that it was an oversight on the part of Rural Development. She said that the second award should not have been obligated until all the funds from the first award had been exhausted.

Since the purpose and time frame for each grant was the same, we compared all reimbursements to ensure that the entity had not submitted the same expenses for reimbursement to both grants. Our review did not uncover any reimbursements that were duplicated. However, we did note an improper payment. Specifically, the RBEG grant facilitated reimbursement for individuals who paid a fee when they signed up to use the entity's web-based service. Though RBS reimbursed the entity $26,078 for this purpose, the entity then claimed those same fees as its own funds, and used them as part of its commitment to provide non-Federal matching funds on a subsequent reimbursement request.[21] According to grant program regulations, a grantee cannot use Federal funds for its matching fund requirement.[22] Therefore, we recommend that the agency recover the $26,078 from the grantee. Grantee officials admitted that this transaction was made in error, and stated they would provide additional matching funds to correct the discrepancy.

Entity Two

The second recipient received a $225,000 RCDG and a $178,148 SSDPG for providing specialized technical assistance in cooperative and business development to under-served communities and small, minority farmers and ranchers. Since the project descriptions were similar and took place during the same time frame, we questioned the State Business Program Director as to whether the grants were duplicative. The State official believed that, although the grants were both for technical assistance, they both involved unique activities. He said that the RCDG was meant to help cooperative

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[20] According to 7 CFR 1942.305 (E), the proposed grant project must be consistent with, and does not duplicate, economic development activities for the project area under an existing community or economic development plan covering the project area.
[21] Funds from non-federal sources, or matching funds, are non-federal funds that an applicant provides from its own accounts in order to obtain a higher score in the application process.
[22] RD Instruction 4284.508.

development, while the SSDPG was meant to help socially disadvantaged producers on an individual level. We agreed with this concept, but found contradictory information within the grant file.

Upon inspection of the grant applications, we found further concerns regarding possible duplication. Both grant projects planned to help some of the same businesses, which was a clear blending of the unique nature of the grants. Also, the grantee planned to use the same staff and consultants for both grants. One application specifically stated that the entity's executive director and a financial officer would work full time on the RCDG project, while the other application stated they would work on the SSDPG project at the same time. We questioned how two staff members could work on both grant projects, especially when they were designated to work full time on one project. Therefore, we examined the grant file to determine how the two individuals' hours were divided between the projects. However, there was no documentation of the duties they performed or details of how they spent their work hours. Without this documentation, we could not determine whether duplicate expenses were reimbursed to the grantee. Since the grant activities and staff hours were potentially the same, we questioned why the State agency did not receive or ask for more information on the two individuals' activities. State agency officials said they did not request such detailed information due to the lack of time and familiarity with the programs, as this was the first opportunity for the loan specialist to work with these programs. The State officials began taking corrective action and said that in the future, they will require that the grantee track all payrolls to show each employee's duties and the time worked on a specific grant project. We also noted that since there is no requirement for field staff to obtain and review this type of documentation, RBS has reduced assurance that it is reimbursing valid, non-duplicated expenses.

We also found further issues at the same entity that may require recovery of improper payments. Specifically, the grantee was reimbursed $13,317 in consultant fees for a financial officer who was an employee of the entity. According to national officials, a person cannot simultaneously be an employee of an entity and also receive consultant fees, as this could be a conflict of interest.[23] We brought this to the attention of RBS State officials, who agreed that the consulting fees should not have been paid. As a result, we are recommending that Rural Development recover $13,317 from the grantee. We noted other issues, which included the following questioned costs totaling $43,483:

- The entity was adding consultants to an SSDPG grant without prior approval from Rural Development State officials. Additionally, it shifted funds between budget line items to allow for the payment of the consultant fees. Therefore, we question the cost for these consultants in the amount of $39,000. Any deviation in the grant's scope of work must get prior approval from RBS.[24] RBS has the right to withhold cash payments, disallow all or part of the cost of the activity or non-

[23] Federal Register, Vol. 76, No. 125, (IV)(G)(18) dated June 29, 2011.

[24] 7 CFR 3019 (c)(2).

compliant activity or action, or partially or wholly suspend or terminate the current award.[25]

- The entity submitted reimbursement requests for the wrong grant project. For example, $4,483 of SSDPG expenses for a marketing tour were charged to the RCDG project. Therefore, we are questioning the costs of this marketing tour in the amount of $4,483.

Based on the volume of non-compliance issues we found when we examined the entity's 2011 grant files, we are recommending that Rural Development thoroughly review the 2010 and 2012 RCDG and SSDPG projects to determine if any additional issues exist. If necessary, Rural Development should recover any improper payments identified.

RBS national officials informed us that they do not have a specific, proactive control in place to prevent approval of grants for the same purpose or reimbursement of duplicative expenses. Instead, national officials said that they rely on the OMB Circular No. A-133 Single Audits to identify any duplicate funding. However, these audits are conducted by outside entities after funding has already been disbursed. Additionally, Single Audits are only conducted on entities that receive combined Federal assistance of $500,000 or more per year.[26] Rural Development also conducts Management Control Reviews and State Internal Reviews to help identify duplication. However, these reviews are only conducted every 5 years, and examine a random statistical sample of files. While these reviews may identify duplication, we believe they are insufficient to prevent duplication prior to awarding of funds or reimbursing expenses.

To monitor grant approvals and reimbursements as they occur, national officials rely on RBS State officials to create their own requirements or guidance on a local level. Even though each State office is responsible for establishing its own Standard Operating Procedures (SOP), RBS does not require State SOPs to include a procedure to look for or prevent duplication. After speaking with officials in nine States, we learned that some State SOPs include extra steps to ensure that awards are not duplicated, either within a single State or between multiple States. For instance, some State officials we spoke with accessed Rural Development's Guaranteed Loan System (GLS) to see if an applicant had grants or loans for the same purpose in another State. If an applicant was found to have a similar grant in another State, officials would then contact the other State to ensure the new award would not duplicate the purpose of the previous award. Another State office decided to divide its staff so that each loan specialist worked exclusively with a single recipient that had multiple awards. This recipient-centered method is meant to ensure consistency and help facilitate duplication prevention.

We also found some confusion about the division of responsibilities between the national-level and the State-level. We spoke with some State officials who believed that the national office is responsible for preventing duplication among grantees with awards in multiple States. Conversely, RBS national officials said they rely on the State officials' due diligence during the application process to locate and prevent this kind of duplication. Due to this lack of clarity, and the need for proactive prevention, we are recommending that RBS implement controls and

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[25] 7 CFR 3019.62 (a).

[26] We noted that three of the eight recipients in our sample did not meet the requirements to have a Single Audit conducted.

provide guidance to field staff to ensure they consistently look for and prevent duplication prior to awarding funds and reimbursing expenses.

Recommendation 2

Establish procedures at the RBS national office level that require State offices to implement controls to consistently look for and prevent duplication among similar grants or loans.

Agency Response

Since there is no Rural Development regulation that covers all programs, the RBS national office will issue an unnumbered letter discussing the need to implement controls to consistently look for and prevent duplication amongst similar grants or loans and establish written procedures that field offices will be required to follow.

In subsequent correspondence, RBS estimated that actions required for this recommendation will be completed by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Recover $26,078 in RBEG disbursements from Entity One where the grant recipient did not provide the matching funds from non-Federal sources.

Agency Response

After further review of the matching documentation and supporting information from Entity One, RBS determined that Entity One had sufficient matching funds to cover the error found in the RBEG grant. A letter from Entity One explaining their corrective actions taken as a result of our audit was included as an attachment to RBS' response. Attached to the letter, the entity also included the final report for their RBOG award and match worksheets. The match worksheets are spreadsheets that list the matching funds for the RBEG and RBOG grants to demonstrate that Entity One provided sufficient matching funds to cover the amounts in error. Additionally, the Rural Development State Office issued a Technical Assistance Grant Reimbursement Policy that went into effect October 2013, also provided as an attachment, to assist the staff with tracking issues and ensure that they have sufficient supporting information from recipients before releasing technical assistance grant dollars. RBS provided the letter from Entity One, including Entity One's final report for their RBOG award and matching worksheets, as well as the State Office Policy on Technical Assistance Grant Reimbursements dated October 1, 2013, as attachments to their response to demonstrate the corrective actions taken as a result of this recommendation. These attachments will not be included in our final report but will be forwarded to the Department's Office of the Chief Financial Officer in support of the agreed-upon corrective actions.

In subsequent correspondence, RBS estimated that actions required for this recommendation will be completed by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Recover $13,317 in SSDPG disbursements from Entity Two where the grantee paid a staff member as a consultant.

Agency Response

RBS national officials will direct the State office servicing official for Entity Two to follow regulations and recover the $13,317 of ineligible SSDPG disbursements from the 2011 grant award.[27]

In subsequent correspondence, RBS estimated that actions required for this recommendation will be completed by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Conduct a thorough review of the 2010 and 2012 RCDG and SSDPG projects for Entity Two. Determine if the questioned costs, totaling $43,483, should be recovered, as well as any additional improper payments identified.

Agency Response

RBS national officials will direct the State office servicing official for Entity Two to send RCDG and SSDPG case files for 2010 and 2012 awards to the national office for post review. If any questionable costs or additional improper payments are identified, the national office will direct the State office servicing official to recover the unauthorized amount(s) in accordance with regulations.

[27] 7 CFR 1951(O).

In subsequent correspondence, RD estimated that actions required for this recommendation will be completed by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We performed our audit at the RBS national office in Washington, D.C.; three State offices; three area offices; and four grant recipients. We also held teleconferences with eight additional State offices. Our review covered FY 2009 through FY 2012, and included the following eight RBS grant and loan programs, due to similarities in their purpose, mission, and objective: the Intermediary Relending Program (IRP), Rural Business Enterprise Grant (RBEG) program, Rural Economic Development Loan and Grant (REDLG) program, Rural Microentrepreneur Assistance Program (RMAP), Rural Business Opportunity Grant (RBOG) program, Rural Cooperative Development Grant (RCDG) program, Small, Socially Disadvantaged Producer Grant (SSDPG) program, and Value-Added Producer Grant (VAPG) program.

Using Rural Development's Guaranteed Loan System (GLS), we coordinated with OIG's Data Analysis and Special Projects group and established a universe of 3,901 RBS grants and loans, totaling approximately $588 million, that were obligated from FY 2009 through FY 2012. We then focused on grants and loans awarded to entities with the highest risk of duplication based on the following four criteria: (1) entities receiving multiple awards from the same program, (2) entities receiving multiple awards from multiple programs, (3) entities receiving multiple awards in multiple States, and (4) entities receiving awards from programs with similar objectives. From this process, we selected a total of 54 grants and loans that were awarded to 8 entities from 2 different States for review to determine if these awards were approved for duplicate purposes, or if recipients requested payment for duplicate expenses. We also conducted interviews with RBS officials from nine State offices to discuss the controls in place and determine if agency officials took the necessary precautions to prevent potential duplication of projects and reimbursements when entities had awards in other States. We performed our audit fieldwork from December 2012 through November 2013.

To accomplish our overall objectives, we performed the following audit procedures:

- Reviewed laws, regulations, agency procedures, user guides, Notices of Funds Availability, prior OIG reports, and other documentation applicable to the scope of the audit.

- Interviewed the appropriate RBS national, State, and area officials to gain a general understanding and detailed overview of the individual grant and loan programs, as well as to assess the controls in place to prevent duplication, overlap, or fragmentation related to the programs' objectives, goals, or funding.

- Obtained and reviewed Congressional testimony presented by the RBS Acting Administrator on April 24, 2013. The purpose of this testimony was to give an overview of the agency's budget request for FY 2014.

- Reviewed documentation for 44 RBS grant and loan files, when available, to assess whether duplication occurred in award approvals or reimbursement requests. For the 10 REDLG files selected, we reviewed the administrative documentation to determine if awards were provided for duplicate purposes. However, the invoices were not available for us to determine whether duplicate expenses were reimbursed.

- Obtained and reviewed management oversight reports, such as State Internal Reviews, Management Control Reviews, and Business and Cooperative Programs Assessment Reviews applicable to the scope of our audit for FY 2009 through 2012.

- Visited grant recipients to obtain and review additional documentation, as well as interview grantee personnel to obtain additional information relating to the selected grant and loan files.

During the course of our audit, we did not verify information in any RBS electronic information system and we make no representation regarding the adequacy of any agency computer systems or the information generated from them.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

FEMA	....	Federal Emergency Management Agency
FY	....	Fiscal Year
GAO	....	Government Accountability Office
GLS	....	Guaranteed Loan System
IRP	....	Intermediary Relending Program
MDO	....	Microenterprise Development Organization
OIG	....	Office of Inspector General
OMB	....	Office of Management and Budget
RBEG	....	Rural Business Enterprise Grant
RBOG	....	Rural Business Opportunity Grant
RCDG	....	Rural Cooperative Development Grant
RCDI	....	Rural Community Development Initiative
REDLG	....	Rural Economic Development Loan and Grant
RMAP	....	Rural Microentrepreneur Assistance Program
RBS	....	Rural Business-Cooperative Service
SOP	....	Standard Operating Procedure
SSDPG	....	Small, Socially-Disadvantaged Producer Grant
USDA	....	United States Department of Agriculture
VAPG	....	Value-Added Producer Grant
VERA	....	Voluntary Early Retirement Authority
VSIP	....	Voluntary Separation Incentive Pay

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
2	3	Matching funds did not come from non-Federal sources.	$26,078	Questioned Costs, Recovery Recommended
2	4	Ineligible expenditure.	$13,317	Questioned Costs, Recovery Recommended
2	5	Unauthorized consultant fees and expenses charged to the wrong grant.	$43,483	Questioned Costs, Recovery Recommended
Total			$82,878	

USDA'S
RURAL DEVELOPMENT'S
RURAL BUSINESS-COOPERATIVE SERVICE
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Rural Development

Operations and Management

Office of the Chief Financial Officer

Financial Management Division

1400 Independence Ave SW
Washington, DC 20250-0707
Voice 202.692.0080
Fax 202.692.0088

Date: February 26, 2014

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: John L. Dunsmuir /s/ John Dunsmuir
Acting Director
Financial Management Division

SUBJECT: Rural Development's Rural Business-Cooperative Service Grant Programs Duplication
(Audit # 34601-0001-31)

Attached for your review is the Rural Business Service's response to the official draft for the subject audit dated February 20, 2014.

The agency's estimated completion date for each recommendation is as follows:

Recommendation 1 – October 1, 2015

Recommendation 2 – September 30, 2014

Recommendation 3 - September 30, 2014

Recommendation 4 - September 30, 2014

Recommendation 5 - September 30, 2014

This response is being submitted for inclusion in the final report and your consideration to reach management decision on the recommendations.

If you have any questions, please contact Arlene Pitter Bell of my staff at 202-692-0083.

February 20, 2014

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Lillian E. Salerno /s/ Lillian Salerno
Administrator
Rural Business-Cooperative Service

ATTN: John L. Dunsmuir
Acting Director
Financial Management Division

SUBJECT: Rural Development's Rural Business-Cooperative Service
Grant Programs Duplication
Audit Number 34601-0001-31

This memorandum is to present the Agency's responses to the recommendation of the subject audit. In addition, we have attached documentation for your review and await management decision. If you have questions please contact Virginia Gilchrist on (202) 690-3805 or via email at Virginia.Gilchrist@wdc.usda.gov.

Recommendation 1
Conduct the research and analyses to support the proposal and associated funding required for a new, consolidated grant program. If efficiencies can be gained through consolidation without impairing rural families and communities, submit a legislative proposal to the Secretary, including the results of the research and analyses conducted stakeholder views, and a definition of the Federal role.

Agency Response:
The Agency will not be able to dedicate resources to complete the analysis recommended, but will instead be using resources and new authorities to implement it. Since the issuance of this official draft report, the Agricultural Act of 2014 (2014 Farm Bill) has been enacted and requires the Agency to establish a Rural Business Development Grant program under Section 6012. This program in essence will consolidate the current Rural Business Enterprise Grant (RBEG) and Rural Business Opportunity Grant (RBOG) programs. National staff resources will be utilized

and responsible for promulgating a regulation for this new program. Further, in the development of the President's fiscal year 2015 budget, the Department will be proposing that in addition to the RBEG and RBOG programs, the Rural Microentrepreneur Assistance Program (RMAP), Rural Cooperative Development Grant (RCDG) and Rural Community Development Initiative (RCDI) programs be consolidated into the Rural Business and Cooperative Grant program. Additionally, during this long-term process the Agency will have to consider the new Office of Management and Budget grant reform requirements which promote performance over compliance. This is a new concept for the Agency and we will need to seek feedback from our field offices and public stakeholders through development and promulgation. As part of a major regulation re-write, the Agency should also be completing a cost-benefit analysis. Through all of these efforts, a more effective and efficient technical assistance grant program should evolve. Although this new program does not include all of the programs under the 2013 legislative proposal, it is a start in the right direction of reducing program burden and consolidation of duplicative grant programs.

OIG Position:

Recommendation 2
Establish procedures at the RBS national office level that requires State offices to implement controls to consistently look for and prevent duplication among similar grants or loans.

Agency Response:
Since there is no Agency regulation that covers all programs, the National Office will issue an unnumbered letter discussing the need to implement controls to consistently look for and prevent duplication amongst similar grants or loans and establish written procedures that field offices will be required to follow.

OIG Position:

Recommendation 3
Recover $26,078 in RBEG disbursements from Entity One where the grant recipient did not provide the matching funds from non-Federal sources.

Agency Response:
After further review of the matching documentation, it has been determined that Entity One had sufficient match to cover the RBEG grant. The annual website costs of $26,078 paid to the partner agencies were included on the RBEG match worksheet in error and removed because they were a direct cost to the award. Please see the attached explanation letter provided by Entity One. In addition, eligible match expenses for the RBEG of $23,307.78 were transferred from the RBOG match worksheet to the RBEG match worksheet. Thus, the RBEG grant of $99,000 was sufficiently matched with $100,888.26. Furthermore, even after the $23,307.78 of the matching funds was removed

from the RBOG match worksheet, the grant was sufficiently matched with $71,805.88. Please see both of the attached match worksheets.
Additionally, the Agency admits that the matching documentation provided by Entity One should have been easier to identify, especially in light of them reporting on two separate grants. Therefore, the State Office issued a Technical Assistance Grant Reimbursement Policy that went into effect October 2013. The guidance was developed to assist the staff with some tracking issues and to ensure that they have sufficient supporting information from recipients before releasing technical assistance grant dollars. Please see the attached State Office policy document.

OIG Position:

Recommendation 4
Recover $13,317 in Small Socially-Disadvantaged Producer Grants (SSDPG) disbursements from Entity Two where the grantee paid a staff member as a consultant.

Agency Response:
The National Office will direct the State Office servicing official for Entity Two to follow 7 CFR part 1951, subpart O, “Servicing Cases Where Unauthorized Loan(s) or Other Financial Assistance Was Received—Community and Insured Business Programs” and recover the $13,317 of ineligible SSDPG disbursements from the 2011 grant award.

OIG Position:

Recommendation 5
Conduct a thorough review of the 2010 and 2012 RCDG and SSDPG projects for Entity Two. Determine if the questioned costs, totaling $43,483, should be recovered, as well as any additional improper payments identified.

Agency Response:
The National Office will direct the State Office servicing official for Entity Two to send RCDG and SSDPG case files for 2010 and 2012 awards to the National Office for post review. If any of the questionable costs or additional improper payments is identified, the National Office will direct the State Office servicing official to recover the unauthorized amount(s) in accordance with 7 CFR parts 1951, subpart O.

OIG Position:

Attachments

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

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